



Graphic Packaging International, Inc.
2600 De La Cruz Blvd
Santa Clara, CA, 95050

October 18, 2011

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject:

Comments for October 20, 2011, Public Hearing to Consider Adoption of the Proposed California Cap and Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation

Reference:

Graphic Packaging International, Inc., Santa Clara Paper Mill,
2600 De La Cruz Blvd., Santa Clara, California

To the Board:

This letter provides a specific written comment on the construction of the benchmark for the Recycled Boxboard Manufacturing activity within the Paperboard Mill sector as specified in Table 9-1 of the proposed California Cap and Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation. As the lone member of this highly trade-exposed industrial activity (High category) where competition outside the jurisdiction of the Air Resources Board (ARB) prohibits us from passing on the greenhouse gas costs to our customers, the construction of the benchmark which dictates free allowances provided is vital to our continued operation. Our benchmark was set incorporating two early action projects our facility conducted, making it impossible for us to benefit from the early investments in greenhouse reductions made. As such, the proposed benchmark has created a higher standard than if we had not made the early investments at all, increasing the annual costs our trade exposed facility will bear annually by approximately \$160,000 per year. As a progressive firm operating at a higher level of sustainability than its peers, we performed these early action projects at the encouragement of ARB who promised that facilities would be fairly rewarded for early action efforts. We believe that the current proposed benchmark is unfair because of its incorporation of the impacts of early action projects. **We ask that the Board direct ARB staff to work with us over the next 12 months to reconstruct the Recycled Boxboard Manufacturing activity benchmark such that it does not include the impacts of early action projects.**



Early Action Projects Conducted

Graphic Packaging International (GPI) conducted two early action projects that significantly reduced our consumption of natural gas at the Santa Clara Boxboard Mill. First, waste heat from the process was routed through the Hot Air Cap, which is used to dry our boxboard product. This device was rated at 3 MMBtu/hr. This project, which was completed in 2007, saved an estimated 25,344 MMBtu annually in natural gas consumption in 2008 and 2009

Secondly, GPI routed waste heat from the flue gas stack to heat process water. A heat exchanger was installed to transfer heat from the flue gas to the process water stream. This project, which was completed in 2008, saved an estimated 186,540 MMBtu annually in natural gas consumption in 2009 with some additional partial year savings in 2008.

Construction on the Proposed Benchmark

ARB Staff constructed the proposed benchmark for the Recycled Boxboard Manufacturing activity based on the 2008 and 2009 data from our facility. The result was 0.499 ton GHG/ton boxboard produced shown in Table 9-1. However, these data include the impacts from both early action projects. We estimate that proposed benchmark fails to consider 7,971 tons of CO₂e emissions that would have been released had it not been for our early action projects. Because these years were used for the benchmark, the proposed benchmark was lower than if the GPI had waited until 2012 to conduct these early actions projects. The proposed benchmark reduces allowances that would have been provided GPI, costing our facility approximately \$160,000 per year (at a nominal price of \$20/ton) for as long as the cap and trade operates in California.

ARB Staff Response

We discussed this issue with ARB Staff. They noted that they are trying to be fair to all by using the same years for benchmark construction. However, we can separate the effects of these two early action projects, as we have shown above.

ARB Staff also noted that GPI does not deserve a benefit from its investment in early action projects because ARB removed a requirement for benchmark setting, which had previously required that the benchmark be 10% of the average. The action that ARB took to remove the 10% criteria was necessary for all groups with 1 member, as the 10% criteria sets up a no-win situation for the lone member in the group. This does not mean that GPI does not deserve a benefit from the investment it made in early action projects.



ARB Staff also noted that there are a fixed number of allowances so they cannot change our proposed benchmark. While we understand that the number of allowances is fixed, it does not mean that GPI does not deserve to have a properly constructed benchmark that fairly indicates the baseline of our facility. If there is a shortage of allowances, the shortage should be addressed separately, not in the construction of a benchmark.

For the reasons stated above, GPI believes that the proposed benchmark for the Recycled Boxboard Manufacturing activity was unfairly constructed, incorporating early action projects that GPI had performed. We ask the Board to direct ARB Staff to work with us to construct a fair benchmark that represents our baseline GHG intensity and is free of early action projects we conducted. We ask that a revised benchmark be presented to the Board for incorporation into the regulation in 2012.

Thank you for your consideration of these comments. We look forward to hearing from the Board and hopefully working on a revised benchmark with ARB Staff in the coming year. Please contact Rick Horne at (408) 496-5080 should you have any questions regarding these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "RM Johnston", with a long horizontal flourish extending to the right.

Richard M. Johnston
Resident Manager

Copies:

William Buchan, Market Potential, Inc.